RETIREMENT MEDICAL BENEFITS ACCOUNT

OVERVIEW

Section 5-10-8.5-11 of the Indiana Code ("IC") directs the Indiana State Budget Agency to establish a retirement medical benefits account as a health reimbursement arrangement for the purpose of funding, on a pre-tax basis, benefits for sickness, accident, hospitalization and medical expenses for certain retired employees.

OVERVIEW

The following individuals are eligible to participate in the Plan if they are classified as full-time employees and are:

(a) Employees of the executive, legislative, or judicial branch of State government;

(b) State elected officers;

(c) Appointed officers who are appointed to fill State elected office vacancies;

(d) Members of the Indiana General Assembly;

(e) Elected officers paid by the State;

(f) An officer paid by the State under IC 33-23-5-10, IC 33-38-5-7, or IC 33-39-6-2.

OVERVIEW

Only a Retired Participant and his/her Covered Dependents are entitled to receive benefits from the Plan.

OVERVIEW

Annual contributions shall be made to each full time active employees account according to the following schedule:

Participants Age	Annual Contribution
Less than 30	$500
30-40	$800
40-50	$1100
At least 50	$1400

OVERVIEW

If a participant retires after June 30, 2007 and before July 1, 2017 with unreduced retirement benefits and has at least 15 years of service (10 years for an elected or appointed officer), they will then receive the product of $1,000 times the years of **state** service credited to their account.

EXAMPLE #1

John Doe is an employee of the state on December 31, 2007, and he is forty-five (45) years old as of this date. He continues his employment with the state and on June 30, 2008, the state credits each employee's HRA with an amount based upon the employee's age as of December 31, 2007. Therefore, John Doe's account would be credited with $1,100 for fiscal year July 1, 2007 to July 1, 2008.

EXAMPLE #2

Jane Doe is an employee of the state and is a member of TRF. She is eligible for unreduced retirement. She has been a teacher for 35 years. Her first 15 years were with the Indianapolis Public School System. The last 20 years have been at the Indiana School for the Deaf.   She will retire on 1-1-08. The credit to her account will be $20,000 (20 years of state service x $1,000 per year)

EXAMPLE #3

Bill Brown is an employee of the state and is age 58. He will work 5 more years and then retire with unreduced benefits. In 5 years he will have a total of 30 years service. When he retires his account will be credited as follows:

5 X $1,400 = $7,000

30 X $1,000 = $30,000

Total = $37,000

OVERVIEW

The accounts are to be used to pay premiums for fully insured individual or group health coverage provided by an insurance policy for the retired participant, spouse and dependents. The surviving spouse and dependents are allowed to continue using the accounts upon the death of the retired participant.

OVERVIEW

All monies in the account revert back upon termination from employment prior to unreduced retirement or upon the death of the retired participant without a surviving spouse or dependents, or upon the death of the surviving spouse.

OVERVIEW

PERF shall establish a retirement medical account such as a 401(h) for funding on a pretax basis benefits for sickness, accident, hospitalization, and medical expenses for the employee, spouse, and dependents. The employee will convert up to 30 days vacation they would have otherwise been paid for at retirement and the state may match the employees contribution to the account on the employees behalf up to two (2) times the employee’s contribution.

IMPLEMENTATION

During July, PERF submitted the 401(h) plan to the IRS for approval.

It is anticipated to take a year to receive this approval.

This portion of the bill cannot be implemented until approval is received.

IMPLEMENTATION

Creation of the Retirement Medical Benefits Account Plan

- Prepared by the Indianapolis law firm of Krieg DeVault LLP
- Outlines with greater specificity the details and administration of the Plan
- Available at www.sba.in.gov/rmbap

IMPLEMENTATION

Selection of Key Benefits Administrators - Flexpro (KBA) as the third-party administrator of the Plan

- KBA administers the state’s flexible benefit plan as well as health reimbursement arrangements for other entities
- KBA provides for the administration of the participant’s accounts

CHALLENGES

M-Plan’s withdrawal from the HMO market
  - Decision was announced by M-Plan in September
  - The M-Plan HMO was the state’s only fully insured health insurance plan with statewide coverage
- To avoid application of the non-discrimination rules set forth by the Internal Revenue Code, funds in a health reimbursement arrangement, i.e. the Plan established in SEA 501, may only be used to pay premiums for fully insured health insurance plans
- It is likely that many retired participants were anticipating purchasing the M-Plan HMO at retirement as their fully insured health insurance plan for purposes of the SEA 501 benefit

M-Plan's
Exit From the HMO Market

- Due to M-Plan's voluntary exit from the HMO market, a retired participant will need to procure insurance from a non-state plan through the private insurance market *
- The administration is considering numerous options to mitigate the disruption on the new benefit provided under SEA 501 caused by M-Plan's decision to cease offering its HMO product, such as:
  - Contacting other HMO providers. However, given the challenging business model of HMOs there are a limited number of providers and policies could be significantly more expensive than other insurance offerings
  - Partnering with other organizations who offer qualified insurance plans at discounted rates

* Welborn operates a HMO for state employees in the Evansville / SW Indiana area.

STATE'S COST

The state's annual cost equals the total annual contributions for all active participants plus any bonus contributions for eligible retired participants

Estimated cost for Fiscal Year 2008 is $49 million

- 31,300 active participants = $35 million active contributions

+

- Bonus contributions for an estimated 750 retired participants = $14 million

CONTACT INFORMATION

Contact the Plan Administrator, Key Benefit Administrators (KBA) at:
(800) 558-5553
(317) 284-7150
Flexpro@Keybenefit.com
Customer Care Representatives are available from 8:00am to 5:00pm Monday through Friday

Budget Agency Web Site – contains frequently asked questions, the plan document, and the KBA packet and contract.

www.sba.in.gov/rmbap